



PRINCIPLES OF AUDITING- PAPER 13

OVERALL AIM

To equip the learner with knowledge and understanding of the procedures involved in planning and execution of an audit

LEARNING OUTCOMES

On completion of this course, the learner **should** be able to:

1. Define auditing, the need for and the nature of auditing
2. Describe the legal, regulatory and ethical environment within which audits are performed in Uganda
3. Describe the basic principles and procedures of auditing
4. Explain how audit work is documented to provide sufficient appropriate audit evidence
5. Explain the design and testing procedures of internal controls
6. Describe computer-assisted audit techniques, the risks of auditing in information technology environment and the use of computer-assisted audit techniques
7. Explain the role of internal auditing and describe the performance of internal audit tasks

LEVEL OF ASSESSMENT

The examination will test knowledge, comprehension and application of auditing theory and principles

EXAMINATIONS STRUCTURE

There will be a three hour examination consisting of six questions of 20 marks each of which the candidate will be required to attempt any five.

A. INTRODUCTION

1. Meaning of auditing and an audit
2. Auditing versus accounting
3. History and changing role of auditing
4. Purpose/ objectives of an audit
5. The information gap and stewardship

6. Auditing postulates
7. Auditing concepts:
 - (a) Auditor's independence
 - (b) Audit evidence
 - (c) Materiality
 - (d) True and fair
 - (e) Disclosure of accounting policies
8. Qualities of an auditor
9. Types of audits:
 - (a) Statutory, government, private
 - (b) Internal audits
 - (c) Other assurance assignments:
 - (i) Forensic
 - (ii) Value for money
 - (iii) Audits relating to environmental and social issues
10. Advantages and disadvantages of an audit

B. AUDIT REGULATION IN UGANDA

1. Regulation and authorisation of auditors:
 - (a) Roles and responsibilities of ICPAU
 - (b) Reasons and mechanisms for the regulation of auditors
2. Appointment, rights and duties of an auditor:
 - (a) Appointment; ways of appointment
 - (b) Rights and duties of an auditor
3. Resignation and dismissal of auditors:
 - (a) Circumstances under which an auditor may resign from his/her appointment
 - (b) Statutory regulations governing the rotation, removal and resignation of auditors
4. Auditing standards and guidelines:
 - (a) The regulatory environment within which statutory audits take place
 - (b) Professional code of conduct
 - (c) Fundamental principles of professional ethics: integrity, objectivity, professional competence and due care, confidentiality, professional behavior
 - (d) Application of the conceptual framework
 - (e) Sources of and enforcement mechanisms associated with, ICPAU's code of ethics
5. Auditor's liability:

- (a) Negligence: liability that may arise due to negligence
 - (b) Liability under private and statutory audits
 - (c) Criminal liability under the Companies Act
 - (d) Minimisation of liabilities
6. Requirements of:
- (a) Accountants Act
 - (b) The Companies Act
 - (c) Insurance Act
 - (d) Financial Institutions Act

C. PRINCIPLES, PROCEDURES AND CONDUCT OF AN AUDIT

1. Audit objectives:
 - (a) Meaning of the objective of the audit of financial statements
 - (b) Procedures in undertaking an audit of financial statement
 - (c) Influences on the conduct of an audit
2. Audit documentation:
 - (a) Meaning and importance
 - (b) Audit working papers
 - (c) Current and permanent audit files
3. Audit evidence:
 - (a) Types
 - (b) Sources
 - (c) Quality:
 - (i) Factors that determine the reliability of audit evidence
 - (ii) Limitations on the quality and quantity of audit evidence
 - (d) Consistency of audit evidence:
 - (i) Meaning and the usefulness of consistent audit evidence
 - (ii) Need for consistency of audit evidence
 - (iii) Procedures that can be employed to obtain consistent audit evidence
 - (e) Procedures/ methods/ techniques of obtaining evidence:
 - (i) Physical examination
 - (ii) Confirmations
 - (iii) Documentation
 - (iv) Analytical procedures
 - (v) Inquiries of the Client
 - (vi) Re-performance
 - (vii) Observation
 - (f) Audit testing, sampling and analytical review procedures
 - (i) Forms of audit testing: compliance tests and substantive

- procedures
- (ii) Audit sampling: basis of sampling, circumstances when audit sampling is not appropriate, sampling risk, bases/ approaches to selecting samples (statistical, non- statistical)
 - (iii) Analytical review procedures: meaning, ways of carrying out analytical procedures, timing and extent of analytical procedures
4. Planning:
 - (a) The need for audit planning
 - (b) Contents of an overall audit strategy and audit plan
 - (c) Relationship between the overall audit strategy and audit plan
 - (d) Development and documentation of an audit plan
 - (e) Interim versus final audits
 5. Internal control systems:
 - (a) Meaning of internal control system, control environment, control risks, tests of control
 - (b) Assessment of internal control systems, types and policies of a given organisation
 - (c) Audit procedures in relation to a client's internal control systems
 - (d) Techniques of evaluating an internal control system
 - (e) Importance and limitations of an internal control system
 6. Audit judgment and materiality:
 - (a) Confirmation whether accounting principles and policies used conform to required reporting standards
 - (b) Materiality and its importance
 7. Income statement audit:
 - (a) The financial statements assertions:
 - (i) Occurrence
 - (ii) Completeness
 - (iii) Accuracy
 - (iv) Cut-off
 - (v) Classification
 - (b) Matters relating to revenue and expenses recognition:
 - (i) Materiality
 - (ii) Risk
 - (iii) Relevant accounting standards
 - (iv) Audit evidence
 - (c) Procedures for verifying revenue and expenditure
 - (d) Audit evidence in respect of the audit of income statement items
 8. Balance sheet/ statement of financial position audit:

- (a) The financial statements assertions:
 - (i) Existence
 - (ii) Rights and obligations
 - (iii) Completeness
 - (iv) Valuation and allocation
 - (b) Identification of balance sheet items and the respective implications in an audit report
 - (c) Factors in the timing of the audit of each item in a balance sheet
 - (d) Audit evidence in respect of the audit of balance sheet items
 - (e) Post balance sheet review and its importance in an audit
9. Audit risk assessment:
- (a) Understanding the entity and its environment
 - (b) Audit risk: detection risk, inherent risk, control risk
 - (c) Importance of risk analysis
 - (d) Professional judgement and materiality
10. Related parties, subsequent events and going-concern considerations
11. External confirmations

D. AUDITING IN AN INFORMATION TECHNOLOGY (IT) ENVIRONMENT

1. Use of computer-assisted audit techniques
2. Application and general IT controls
3. Key aspects of computer audits
4. Risk and challenges of audit in an IT environment

E. AUDIT REPORTS

1. Meaning
2. Elements
3. Types of audit opinions
4. Compliance with international standards on auditing

F. INTERNAL AUDITING

1. Role, need, scope, benefits and limitations
2. Types of audit reports
3. Responsibilities of internal and external auditors for the detection and prevention of fraud and error
4. External versus internal auditing
 - (a) Roles regarding planning and collection of audit evidence
 - (b) Types of reports produced

5. Reliance on the work of internal auditors
6. Elements of best practice with reference to international codes of corporate governance
7. Developments in internal auditing
 - (a) Nature and purpose of internal audit assignments including value for money, IT, investigation
 - (b) Operational internal audit assignments (procurement, marketing, treasury and human resources management)
 - (c) Advantages and disadvantages of outsourcing the internal audit function

REFERENCES

1. Millichamp A.H and Taylor John (2008): Auditing, Cengage learning. 10thEdition.
2. Manasseh Paul (2007): A Textbook of principles of Auditing, McMore Accounting Books. Revised Edition.